



NEWBERG DOWNTOWN IMPROVEMENT PLAN



MARKET CONDITIONS REPORT

PREPARED BY



LELAND CONSULTING GROUP

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Introduction

This Market Conditions Report has been prepared as part of the Newberg Downtown Improvement Plan (NDIP). In early 2015, the City of Newberg, Oregon was awarded a grant by the Oregon Department of Transportation (ODOT), and the Department of Land Conservation and Development (DCLD) to develop a roadmap for improving Newberg's downtown. This project, the NDIP, will focus on

land use, transportation, and design solutions to achieve a thriving and livable downtown that meets the community's visions and aspirations. The NDIP is being led by the City of Newberg with support from a project consultant team, a community advisory committee, and general public input. The NDIP is anticipated to be complete in Fall 2016.



The purpose of this Market Conditions Report is to build upon the findings of previous studies that have examined and recommended a path for Newberg and provide a baseline understanding of the existing market and economic factors, including demographics that affect development in the study area and across the city of Newberg. This report arrives at an early stage in the NDIP planning process, so that the project decision-makers can, given the report's findings, understand what strategic considerations should guide the approach to development in downtown Newberg.

This Market Conditions Report first delves into the demographics of Newberg. Population profiles are examined in order to understand who the citizens of Newberg are, how quickly the population is growing, and how the population will change in coming years.

After demographics, the report illustrates the general economy of the city of Newberg. This section covers unemployment trends, major employers, major industries by employment, and job sector trends. These economic factors are instrumental in understanding the nature and general health of Newberg's economy.

Real estate market sectors are then analyzed, starting with the housing sector (both rental and owner-occupied), followed by the retail and office sectors. The industrial sector is considered, but not analyzed in detail, as there are few industrial uses in downtown Newberg.

The reader should note that land use inventories are analyzed in this report's companion piece, Technical Memorandum #1: Existing Conditions.

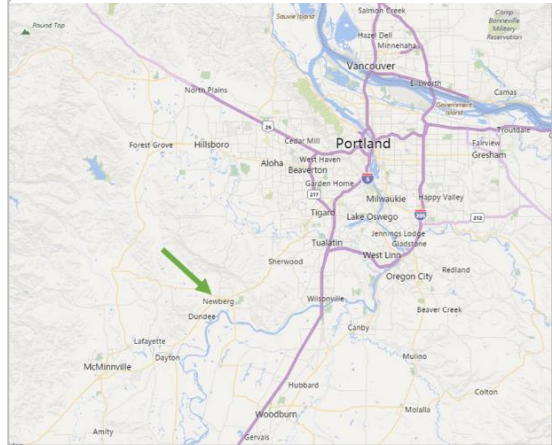
Demographic and Economic Context

Newberg Overview

Newberg, Oregon is a city of approximately 23,000 people located 26 miles southwest of Portland, Oregon. Newberg was settled in the mid-19th century, and later platted and incorporated as a city in 1889. Today Newberg is known as the gateway to Yamhill County's many wineries and one of the focal points of the Willamette Valley's Wine Country. Newberg is well positioned between the growing Portland metropolitan area to the northeast and the agricultural economy of the surrounding Willamette Valley.

The purpose of this study is to investigate and present the current real estate market conditions of Newberg in general and Newberg's downtown in particular, in order to inform the Newberg Downtown Improvement Plan (NDIP). This market conditions study forms the base of the NDIP's analysis of the economic situation and real estate position of Newberg's downtown area.

Figure 1 - Newberg Location in Relation to the Portland Metropolitan Area



NDIP Study Area and Market Boundaries

The NDIP study area encompasses Newberg's historic downtown and surrounding blocks, roughly measured between Sheridan Street to the north, Second Street to the south, and the east and west ends of the one-way street couplet that are formed by Hancock Street and First Street. These two streets are also known by their Oregon Department of Transportation numbered names, State Highway 99W and State Highway 219, respectively.

For the purposes of analysis, this report considers the market conditions of the NDIP study area, its immediate surroundings, and the entire city of Newberg.

Figure 2 - NDIP Study Area

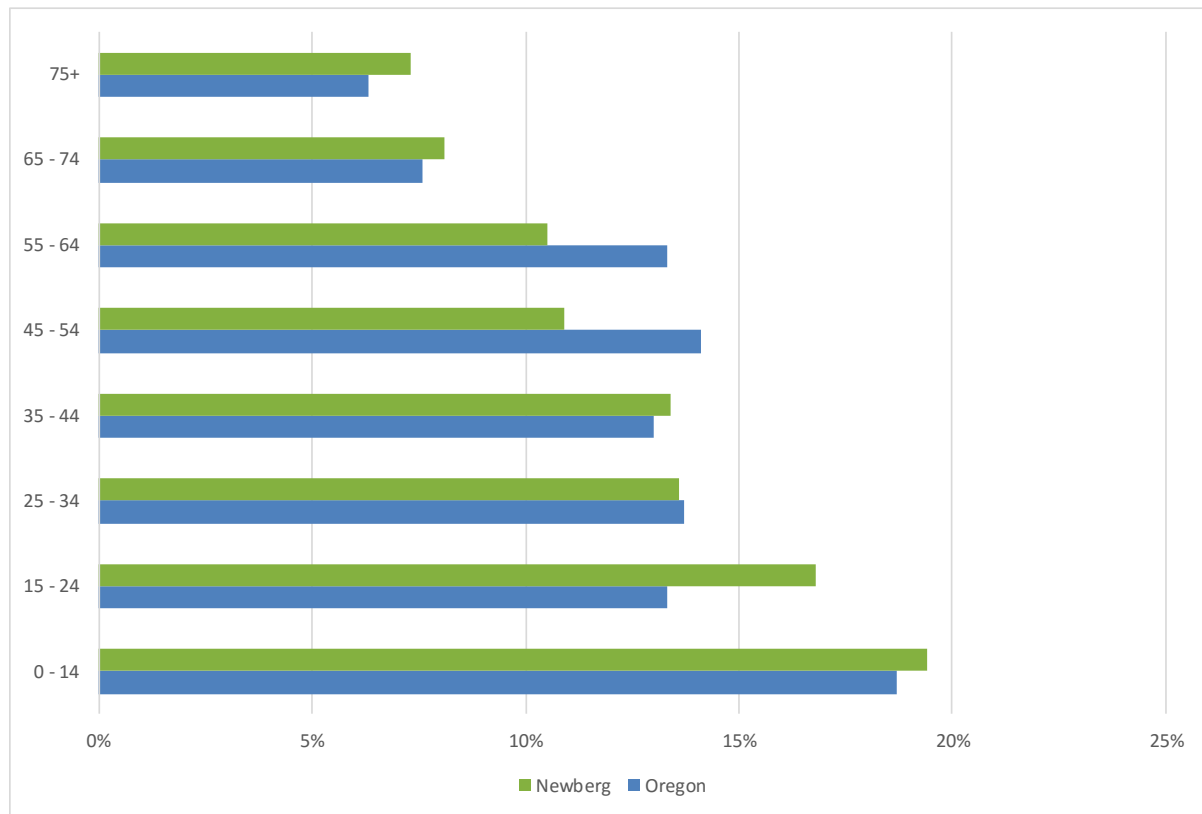


Area Demographic Analysis

Newberg is a growing community with a current population of almost 23,000 as of 2015. Between 2000 and 2010 Newberg grew by over 20 percent, a substantial change when compared to the State of Oregon's growth of 12 percent over the same period. The population is relatively young with an average age of 34 years. Newberg is a college town, with over 4,000 undergraduate and graduate college students attending the private George Fox University, along with scores of students at Newberg's

Portland Community College (PCC) campus. The following chart illustrates Newberg's population by age.

Figure 3 - Newberg's Population by Age, Compared to Oregon (2015)



Source: ESRI

Newberg Demographic Snapshot¹

- Newberg outpaced the state's growth rate during the decade of 2000 to 2010 and is currently continuing to grow at a faster rate than the rest of Oregon. **Newberg's population is projected to grow on average 2.7% percent annually between now and 2020.**
- The average household size is **2.64 people**, compared to Oregon's average of **2.45**.
- Nearly a quarter (23 percent) are single-person households and 33 percent are two people. **Together, one and two-person households make up 56 percent of the total population.** Seventeen percent of Newberg households are three people and 15 percent are four people.
- **Newberg's household median income is \$58,602**, which is slightly higher than both the Oregon and U.S. household median incomes.
- As of 2010, about **59 percent of Newberg housing units are owner-occupied** and 35 percent are rented.
- Approximately 28 percent of Newberg's population is a high school graduate or has a GED; 25 percent have had some college, but no degree, **over 20 percent have a bachelor's degree,**

¹ Source: ESRI and PSU's Population Research Center

and 9.3 percent have a graduate degree. These percentages are in-line with the State of Oregon numbers.

- While Newberg's population is fairly homogeneous at 85 percent white, **over 14 percent of the population identifies as Hispanic.**

Lifestyle Segments

The demographics and analytics firm, ESRI, has created a number of psychographic profiles, or "tapestries," which are used to better understand a place's population. These tapestries combine demographic information with consumer purchasing and other lifestyle data to present a fuller picture of the attitudes, interests, opinions, and lifestyles of a community. Commercial retail developers, in particular, are interested in understanding a community's lifestyle segment, as this is an indication of the residents' propensity to spend across select retail categories. Residential developers are also interested in understanding this profile as it tends to suggest preferences for certain housing products. Newberg's top five tapestries that together represent over 85 percent of the city's population are highlighted in the following table.

Table 1 - Newberg's ESRI Tapestries (2015)

Rank	Tapestry Segment	Percent of Newberg Households	2015 U.S. Households Cumulative Percent
1	Middleburg (4C)	22.9%	2.80%
2	Front Porches (8E)	19.6%	1.60%
3	Soccer Moms (4A)	16.2%	2.80%
4	Green Acres (6A)	15.8%	3.20%
5	Down the Road (10D)	11.3%	1.10%

Source: ESRI

The following ESRI descriptions explain in brief detail characteristics that define each of Newberg's top five tapestries.



Middleburg (23 percent) – Conservative, family-oriented households living in semirural subdivisions. They are thrifty and willing to carry some debt, but already investing in their futures. They prefer American-made products and travel within the United States. Somewhat younger than the population at large, their average age is 35 years and average household size is 2.73 people.



Front Porches (20 percent) – A blend of household types with more young families with children or single households than average. This group is more diverse than the United States and about half are renters, primarily in older homes and duplexes. Their income and net worth are well below the US average and many households have taken out loans to make ends meet. Their average age is 34 years and average household size is 2.55 people.



Soccer Moms (16 percent) – Affluent, family-oriented households with a country flavor. They are partial to new housing away from the bustle of the city but close enough to commute to professional job centers. The hectic pace of two working parents with growing children leads them to favor time-saving services and family-oriented pursuits. Their average age is 37 years and average household size is 2.96 people.



Green Acres (16 percent) – Avid do-it-yourselfers who enjoy country living and self-reliance. They are invested in maintaining and remodeling their homes and yards, often turning some of the land into gardens. They enjoy outdoor recreation and are generally conservative in their outlook. Their average age is 43 years and average household size is 2.69 people.



Down the Road (11 percent) – Younger, more diverse communities that live in a mix of low-density, semirural neighborhoods in large metropolitan areas. These family-oriented consumers value their traditions and primarily work in service, retail, manufacturing and construction. This segment typically has higher unemployment as well as lower median household income and home value. Their average age is 34 years and average household size is 2.74 people.

NDIP Study Area Demographics

Newberg is a small city with a modest downtown. There is limited housing in and around the downtown area and the majority of the population live in single-family homes on 5,000 square foot to 10,000 square foot lots in residential or suburban style subdivisions. There are approximately 4,000 residents that live within a half mile of the center of the downtown area which is the intersection of East First Street and South Howard Street, the location of City Hall.

The following table compares the demographics of the entire city of Newberg to the population located within a half mile of downtown's approximate center point, City Hall.

Figure 4 - NDIP Half Mile Demographics (Green Ring)

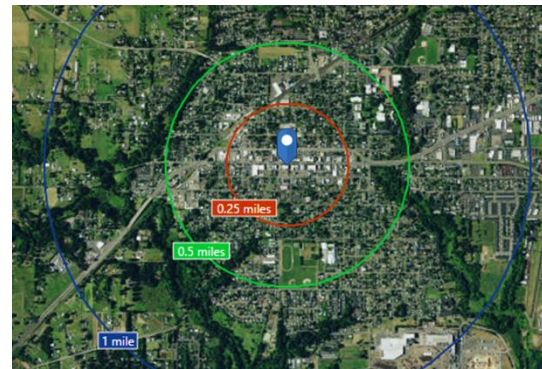


Table 2 - NDIP and Surrounding Area vs. Citywide Demographics (2015)

	Half Mile from Newberg City Hall	Entire City of Newberg	Comparison
2015 Population	4,059	22,646	The downtown and immediate surrounding area represents 18 percent of the Newberg population
2015 Average Household Size	2.56	2.64	Households are generally smaller in the downtown area
2015 Housing Units	1,382	8,565	16 percent of Newberg's households are located in the downtown area
Renter-Occupied Housing Units	46%	37%	The downtown area has more renters than the rest of Newberg
One and Two-Person Households	61%	56%	There are more small households in the downtown area
2015 Median Age	28	34	The population is generally younger in the downtown area

Source: ESRI, Leland Consulting Group

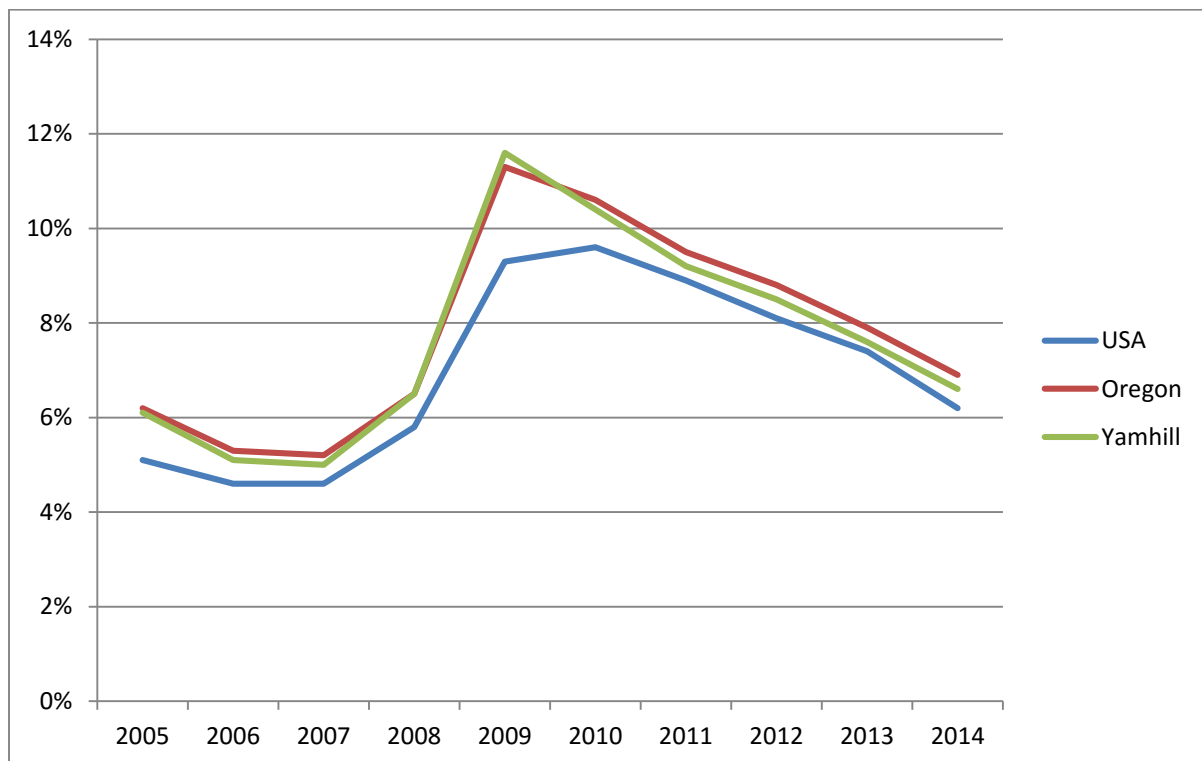
If we drill down even further to the NDIP boundaries, we see that the downtown area, while having a decently small population, is understandably quite different than the entire city. For example:

- There is a total **population of 325 people** in **121 households** within the NDIP study area, versus Newberg's total population of 22,646 people in 8,004 households.²
- Average **household size is 1.6 persons**, considerably smaller than the rest of the city at 2.64.
- Of the 134 housing units in the NDIP study area, **60 percent are renter-occupied, versus the city's percentage of renters is only 36.7 percent.**
- The **median age within the study area is 24, while the median age of all of Newberg is 34.**

Area Economic Analysis

Newberg is the second largest city in Yamhill County after McMinnville, and together the two cities comprise over half of Yamhill County's population. Yamhill County has seen a steadily declining unemployment rate since the end of the recent recession. The seasonally adjusted unemployment rate was 6.6 percent in 2014, down from 7.6 percent in 2013. The month by month unemployment rate for 2015 has continued to show promising declines. It's worth noting that 7.6 percent down to 6.6 percent is a considerable drop, and reflects the county's steady climb out of the recent recession.

Figure 5 - Yamhill County Unemployment Compared to Oregon and the Nation (2005 to 2014)

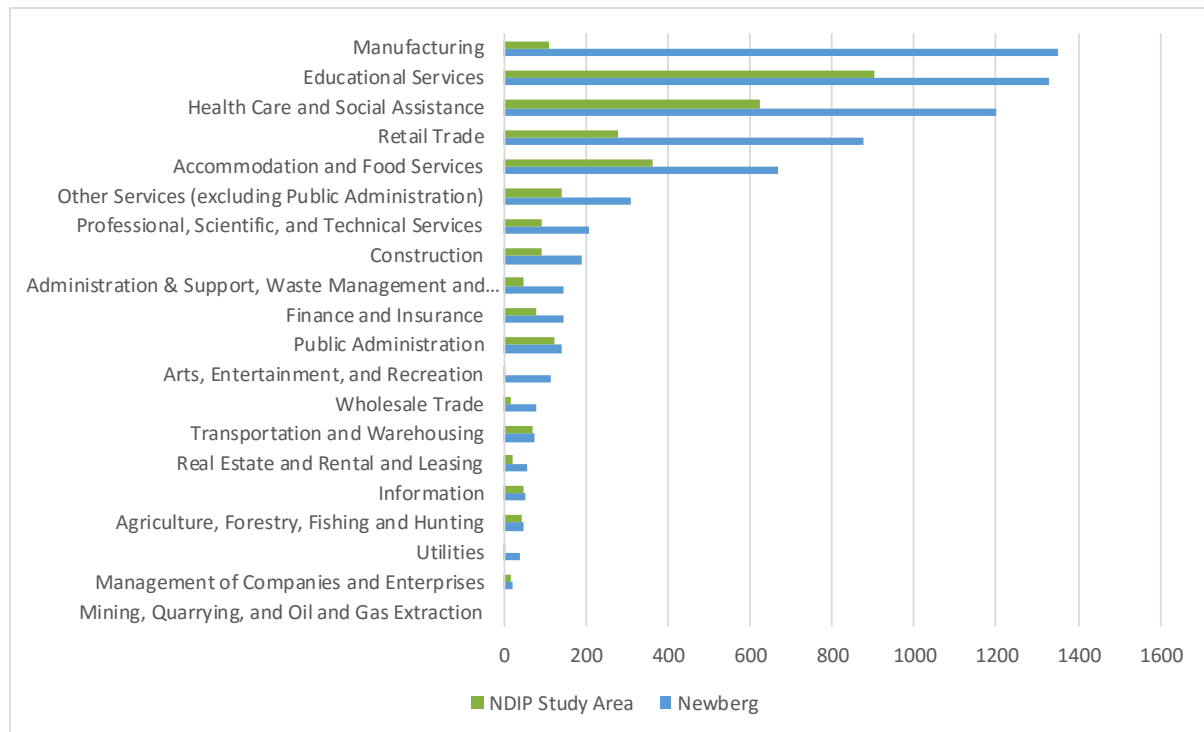


Source: U.S Bureau of Labor Statistics

² 1.6 persons per household multiplied by 121 results in 194 people. In further examining the data, LCG believes that some group housing is being picked up in this data in order to achieve the 325 people in the study area. Most likely this represents George Fox University student housing.

Newberg has over 7,000 full-time workers, with a few large employers that form the base of its economy. At the top of the list is notable dental equipment firm A-dec with over 800 employees. Providence Newberg Medical Center, George Fox University, Portland Community College, and the Allison Inn & Spa resort are other significant employers. With five elementary schools, two middle schools, and a four-year high school, Newberg School District also contributes significantly to employment in the area. Figure 6 - Employment by Industry, NDIP and Newberg (2013) below illustrates the breakout of employment by industry within the entire city of Newberg as compared to the employment within the NDIP study area geography.

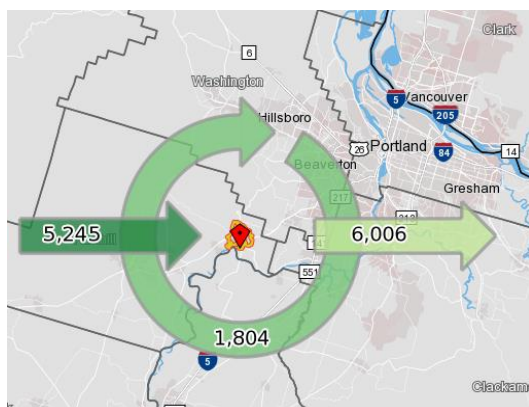
Figure 6 - Employment by Industry, NDIP and Newberg (2013)



Source: U.S. Census Bureau

Newberg has a fairly even split between residents that work outside of the city limits and workers who commute into Newberg for work. The following chart outlines this data. The top destinations of the 6,006 Newberg residents that travel outside of Newberg each day for work are Portland, Tigard, Tualatin, Beaverton, and Hillsboro.

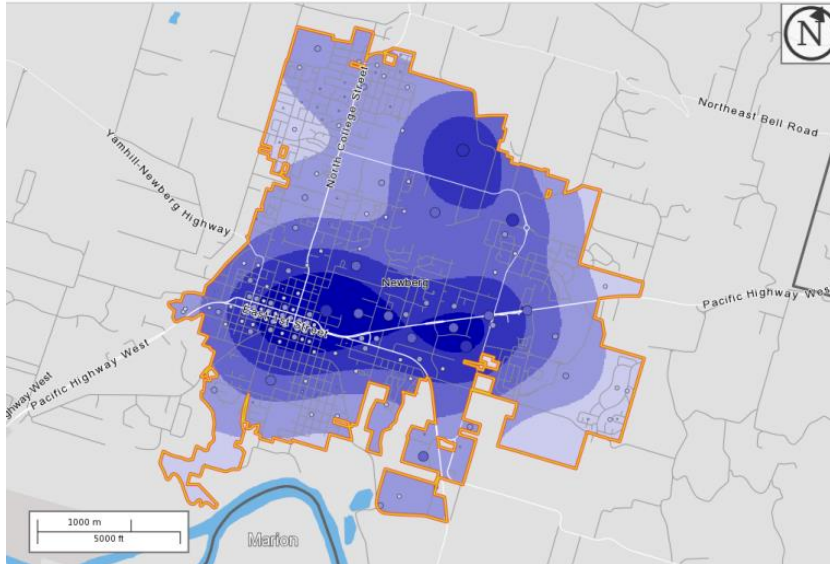
Figure 7 - Newberg Resident and Worker Commuter Patterns (2013)



Source: U.S. Census Bureau

The following map outlines the major employment areas in Newberg. Downtown and 99W stretching northeast of town form the major concentration of employment locations. The dark concentration in the northern part of the city is A-dec, the dental equipment company.

Figure 8 - Newberg Employment Concentrations



Source: U.S. Census Bureau

Market Conditions

Rental Housing

Nationally, apartment demand and occupancy remains strong and demographics clearly favor the apartment sector over ownership housing. Declining homeownership is increasing the demand for apartments generally, and financing for home ownership has become much more difficult, which is exacerbating the shift to apartments, particularly among newly formed Generation Y households. Additionally, weak employment growth has resulted in more part-time jobs and weak income growth, which has created more renters. Apartment growth is most apparent in larger cities, near city centers, neighborhood centers, and along frequent transit lines.

The Newberg rental apartment market is of modest size and, despite relatively low rents, there is exceptionally tight vacancy. According to CoStar Property Analytics, there are 59 multifamily properties in the city of Newberg with an average size of 36 units. Few market rate units have been added to the market in the past decade. Multifamily rents are stable but generally lower than necessary to allow new construction to pencil. Rents range between \$0.96 per square foot per month for average properties to \$1.20 to \$1.28 per square foot per month for newer construction. The newest apartment complex in Newberg, Springbrook Ridge which is completing construction this year, has asking rents of \$1.18 to \$1.19 per square foot per month.

Table 3 - Newberg Multifamily Statistics

Newberg Multifamily Inventory Statistics	
Number of Multifamily Properties	59
Number of Multifamily Units	1904
Number of Income Restricted Properties	8
Average Number of Units/Property	36
Percent of Total Multifamily Units that are Income Restricted	17.5%
Average Year Built	1974
Current Vacancy	2.4%
Average Asking Rent/SF/Mo (2015)	\$ 1.06
Average Asking Rent (Monthly, 2015)	\$ 827

Source: CoStar Property Analytics

Figure 9 – Examples of Downtown Newberg Multifamily Housing



Typical to the Newberg multifamily market are two to 10-unit complexes built in the 1970s and 80s. CoStar reports that the multifamily vacancy rate has fluctuated between less than two percent to almost four percent in the past five years. The current multifamily vacancy rate stands at an incredibly low 2.4 percent.

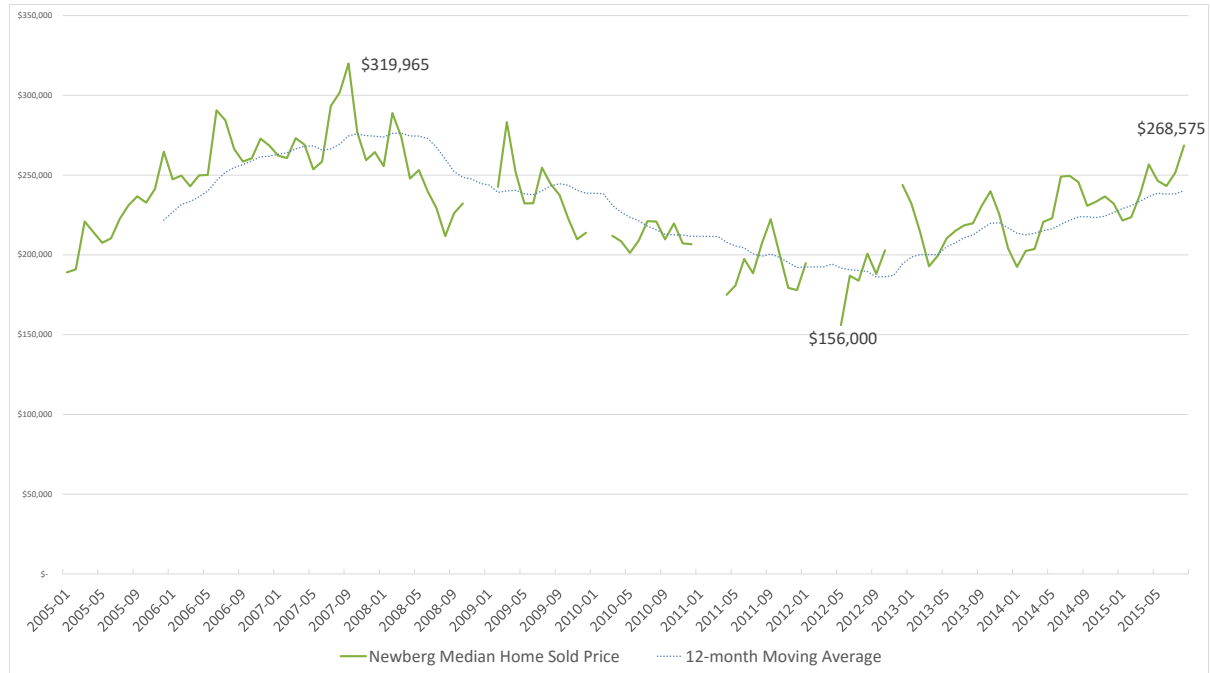
Downtown Newberg has a number of second floor apartment units above first floor commercial spaces. These units are primarily concentrated along First Street, and more specifically on the south side of the street. Currently, the Newberg Downtown Coalition is conducting a review of downtown housing units. This survey will inform the City as to how many active units they have in the downtown area.

There are a number of potential development sites in the downtown area that could serve as multifamily apartment sites. These vacant sites are clustered on the east and west ends of the downtown. Redevelopment of existing improved sites is also a possibility throughout the downtown (see the improved values vs. land values map at the end of this report).

Ownership Housing

Single-family home prices have yet to rebound to pre-recession levels. The following chart illustrates the volatility in the market over the past 10 years.

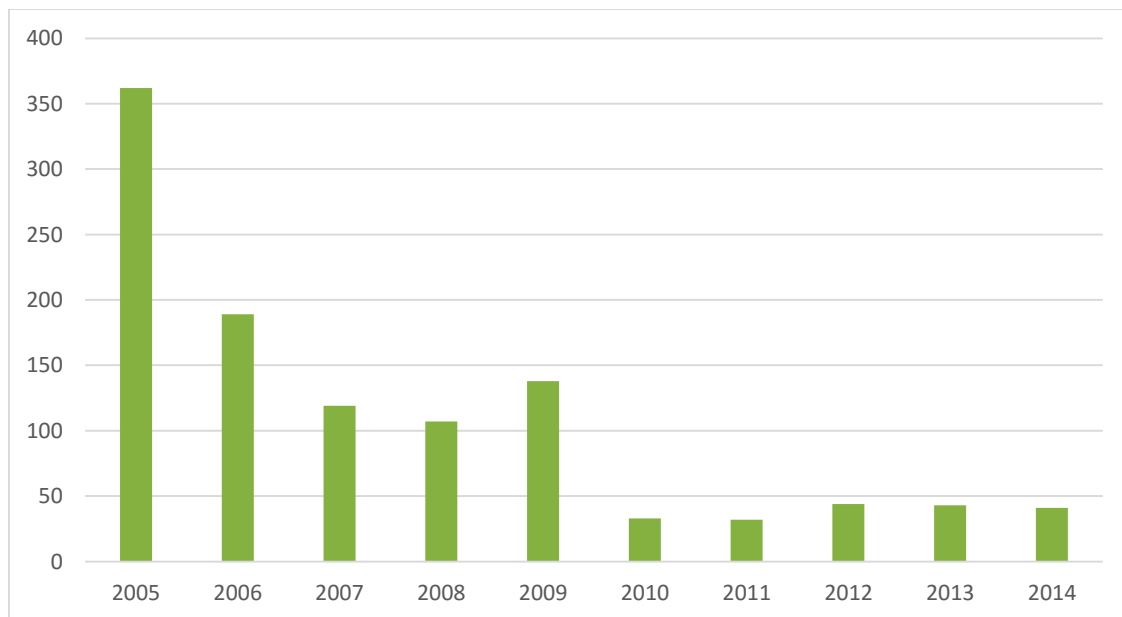
Figure 10 - Newberg Single-Family Median Home Sold Prices (2005 to 2015)



Source: Zillow Real Estate Research

Single-family housing permits in Newberg have declined dramatically since the recent recession. Fewer than 50 permits have been issued annually since 2009.

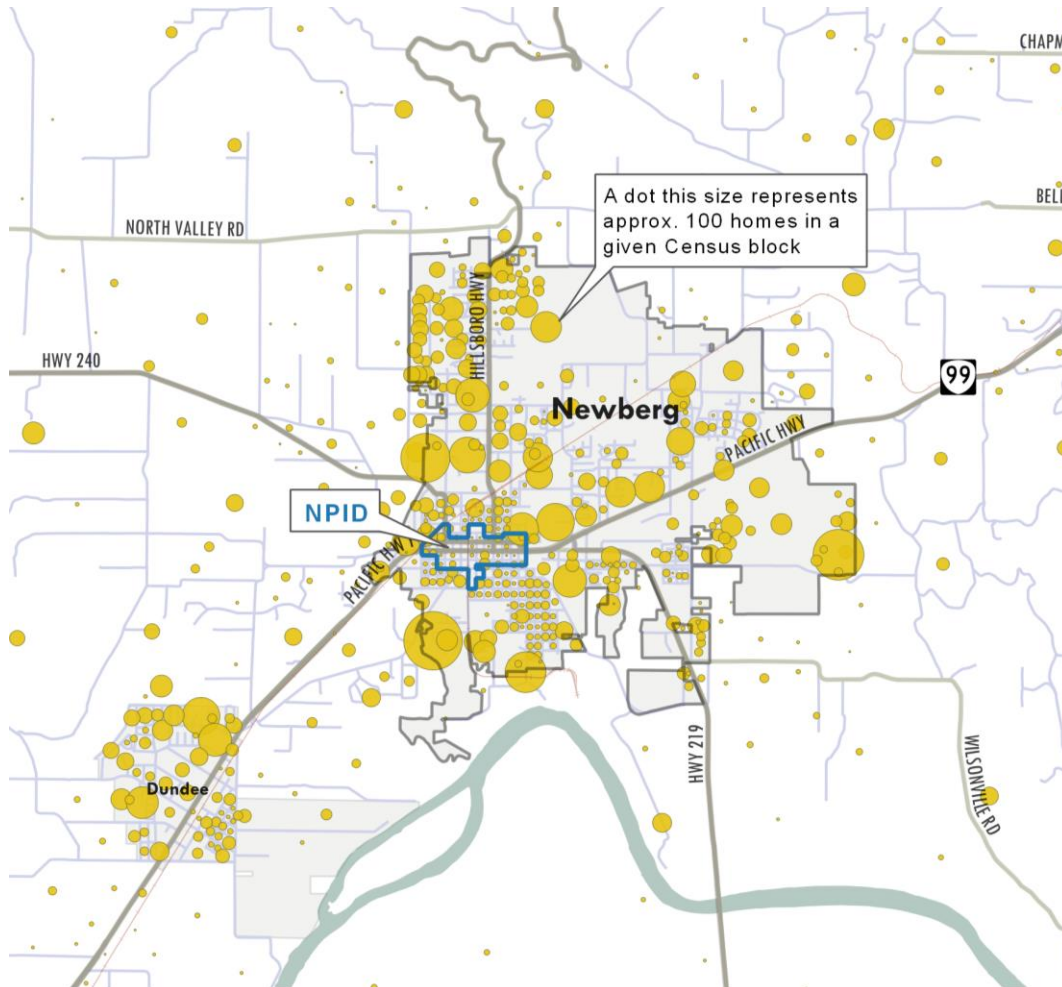
Figure 11 - Single-Family Detached Housing Permits, Newberg (2005 to 2015)



Source: U.S. Census Bureau

While illustrative of the overall housing economy, single-family housing is not likely to be a significant use in the NDIP study area, and although condominiums are an appropriate use for downtowns, market fundamentals (pricing, lending criteria) are greatly favoring apartments over condominiums in all but the most expensive urban housing markets like downtown Seattle or Portland. Over the long term, however, these conditions might change and the market could favor condominiums over apartments.

Figure 12 - Newberg Comparative Residential Population by Block Group (2013)



Source: U.S. Census

The map above illustrates the relative census block population of Newberg. Larger circles indicate higher populations in that census block, and smaller circles vice-versa.

The map shows that the population of Newberg is concentrated primarily in a north and south axis running through the downtown area and also spreading northeast along Pacific Highway.

Retail

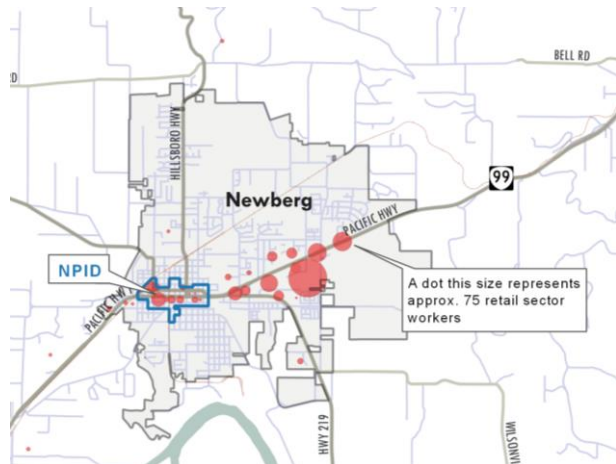
CoStar reports that Newberg has 191 retail buildings totaling 1.32 million square feet of retail space. The market has a **low vacancy rate of 3.8 percent**. Rents vary widely by retail property type, condition, and configuration. New retail pads along 99W east of the downtown area are fetching between \$13 per square foot per year on a triple net basis³ to the high \$20s. A few asking rents for new, first generation space are even in the \$30s.

The map at right, like the residential map in the previous section, illustrates the relative size of retail employment by block group in Newberg. By using retail employee numbers as a proxy, the map shows that retail outlets are concentrated along Pacific Highway and downtown Newberg.

Downtown Newberg consists of 102 retail buildings that account for 30 percent of the citywide retail stock by square footage. Rents in the downtown area are a magnitude lower than the strip retail on 99W. **Average asking rates are between \$9 per square foot per year to \$12 per square foot per year** on a triple net equivalent basis.

Downtown retail suffers from years of disinvestment as retail trends in the 1970s through the 1990s encouraged auto-oriented retail growth outside of city centers. The most recent retail construction in downtown has been a two-tenant 1,700 square foot single-story building at the corner of Washington and East 1st Streets, and a 1,600 square foot Subway restaurant near the west entrance to the downtown area. Today many downtown Newberg retail buildings are still in average to fair condition, although properties have recently started to be redeveloped, with a handful of notable renovations and new tenants in the past five years.

Figure 13 - Comparative Retail Employment by Block Group (2013)



Source: U.S. Census

Figure 14 - Examples of Downtown Newberg Retail

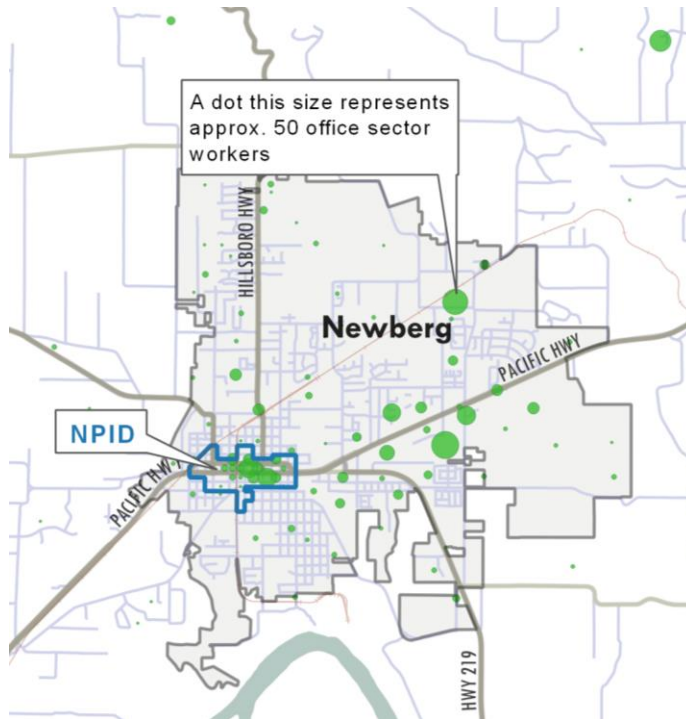


³ Triple net leases or NNN leases are commercial real estate leases where the tenant is responsible for all of the property's expenses, with the exception of structural maintenance and tenant management fees. NNN leases are typical for retail and industrial properties.

Office

The City of Newberg has 87 office buildings with a total of 429,969 square feet of rentable space. Typical to the Newberg office market are wood-framed Class B and C office buildings built between 1960 and 1990. **Office vacancy stands at 7.5 percent** according to CoStar; this is down from a high of almost 14 percent at the peak of the recession in 2009. Gross office rents⁴ currently average around \$16.60 per square foot per year. Examining current listings, there are a number of available spaces in buildings constructed in the past decade along the 99W corridor northeast of downtown. These availabilities have asking gross rents that range from \$14 to \$24 square foot per year.

Figure 16 – Comparative Office Employment by Block Group (2013)

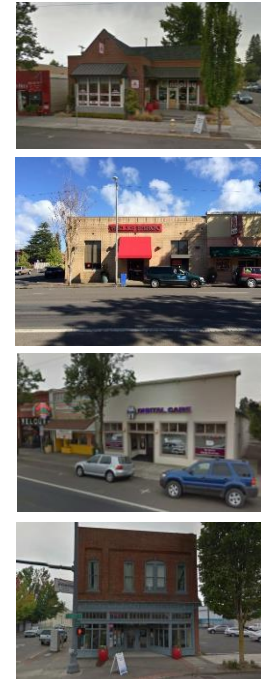


Source: U.S. Census

The map above illustrates the concentrations of office employment by block group in the city of Newberg. Office locations are more scattered across the city than retail outlets, but has strong worker concentrations in downtown and along Pacific Highway.

The office market in downtown differs from the citywide office market in a number of ways. The 27 office properties in downtown Newberg are, on average, smaller and older than offices citywide, with an average size of 3,021 square feet and average year built of 1958. Office vacancy downtown appears to be almost nonexistent, and in a related fashion, rents have been climbing in recent years. Although limited data is available, CoStar reports a **current direct gross rent of \$20.52 per square foot per year for the NDIP area**. This number has jumped considerably from 2008 to 2012, when office rents were averaging around \$13 per square foot per year.

Figure 15 - Examples of Downtown Newberg Offices



⁴ Gross rent structures are rents in which the landlord pays for most of the property's expenses. For this reason, gross rents are typically higher than triple net rents. Full service gross rents refer to when a landlord is paying all of a property's expenses, whereas "modified gross" refers to when the tenant and landlord share expenses.

Industrial

At the northwest corner of the downtown study area, there is an area of approximately 4.6 acres that is zoned M-2 for light industrial use. Currently, these northwest blocks are home to businesses such as Anam Cara Cellars, Habitat ReStore, First Street Yoga, a produce stand, a couple of restaurants, and a specialty glass shop. Though industrial uses are still active in the area, the antiquated nature of industrial buildings and the pressure from increased demand for downtown commercial spaces is gradually changing the area's character. While not currently slated for a re-zoning in the City's Comprehensive Plan, the M-2 zone allows a broad range of commercial uses, including restaurants, athletic facilities, and retail secondhand stores, among other uses.

Figure 18 - Industrial Area in Study Area

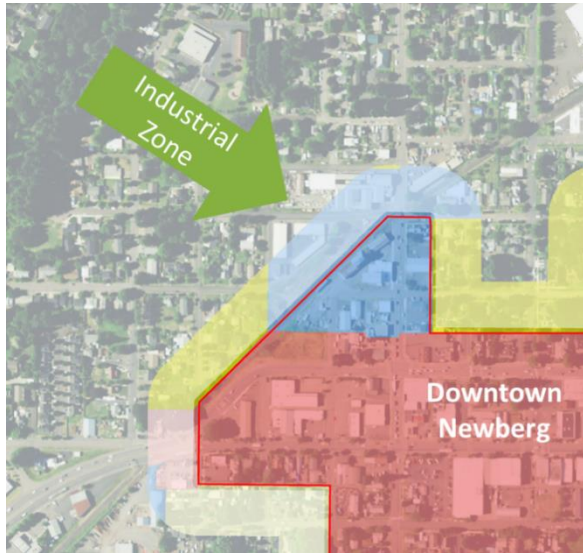
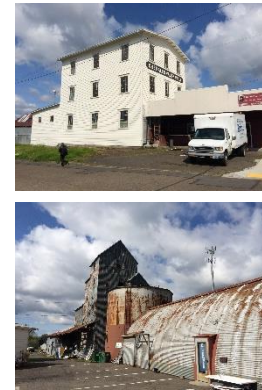


Figure 17 - The Chehalem Valley Mills



City staff recognizes the potential for redevelopment in this area, and is ready to assist property owners, should they be interested in a use that is pushing the limits of the M-2 zone, but is fitting with the growing neighborhood character.

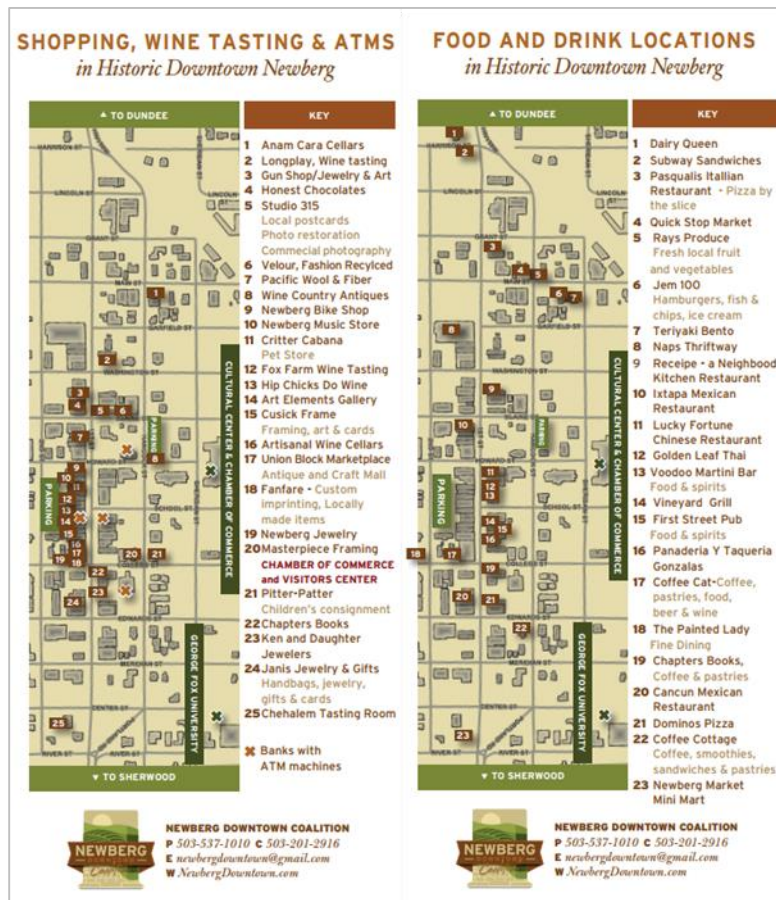
The most notable property in this emerging sub-district is the Chehalem Valley Mills site. Currently the home to a secondhand store, the former mill property has significant and distinct industrial buildings that could house a catalytic, activity-generating business or series of businesses such as a brewpub or co-working space for small businesses and entrepreneurs.

Other properties of note in this area include a few blocks of vacant or underutilized land adjacent to, and down the street from, the Mill site. These sites, with their orientation to downtown and M-2 zoning would be particularly ideal for "craft industrial" uses, such as bike builders, bakeries, breweries, or woodshops.

Newberg Tourism and Visitor Information

Newberg has a thriving tourism industry. Located in Yamhill County's Wine Country, there are over 200 wineries within a 20-minute drive from downtown. Other area attractions include the Chehalem Glenn Golf Course, art galleries, the Newberg farmers market, heritage sites, and museums. Newberg hosts a number of festivals over the course of the year including the Old Fashioned Festival, the Newberg Camellia Festival, the Willamette Valley Lavender Festival, and the Oregon Truffle Festival. The 85-room Allison Inn & Spa resort located in Newberg is frequently ranked as one of the best hotels in the nation and attracts visitors from around the world to Oregon's Wine Country.

Figure 19 - Newberg Downtown Coalition Maps



Source: Newberg Downtown Coalition

Downtown Newberg currently boasts 11 wine tasting rooms, numerous restaurants, art galleries, and small retail shops. Both the Chehalem Valley Chamber of Commerce and the Newberg Downtown Coalition are active supporters of downtown tourism. Each advocacy group offers robust websites with detailed visitor information.

Downtown Newberg Market Assessment

Opportunities and Constraints

The emergence of strong market momentum presents a number of opportunities for downtown Newberg. For example, by capitalizing on the already vibrant and growing restaurant and niche retail scene, Newberg can reinforce its position as the focal point for the Willamette Valley's Wine Country. Another market opportunity for downtown Newberg would be to better engage with the George Fox University (GFU) community. GFU students already are some of the most active downtown users. More student housing and student-oriented businesses in the downtown would better support existing businesses and add to the vibrancy and character of the downtown area.

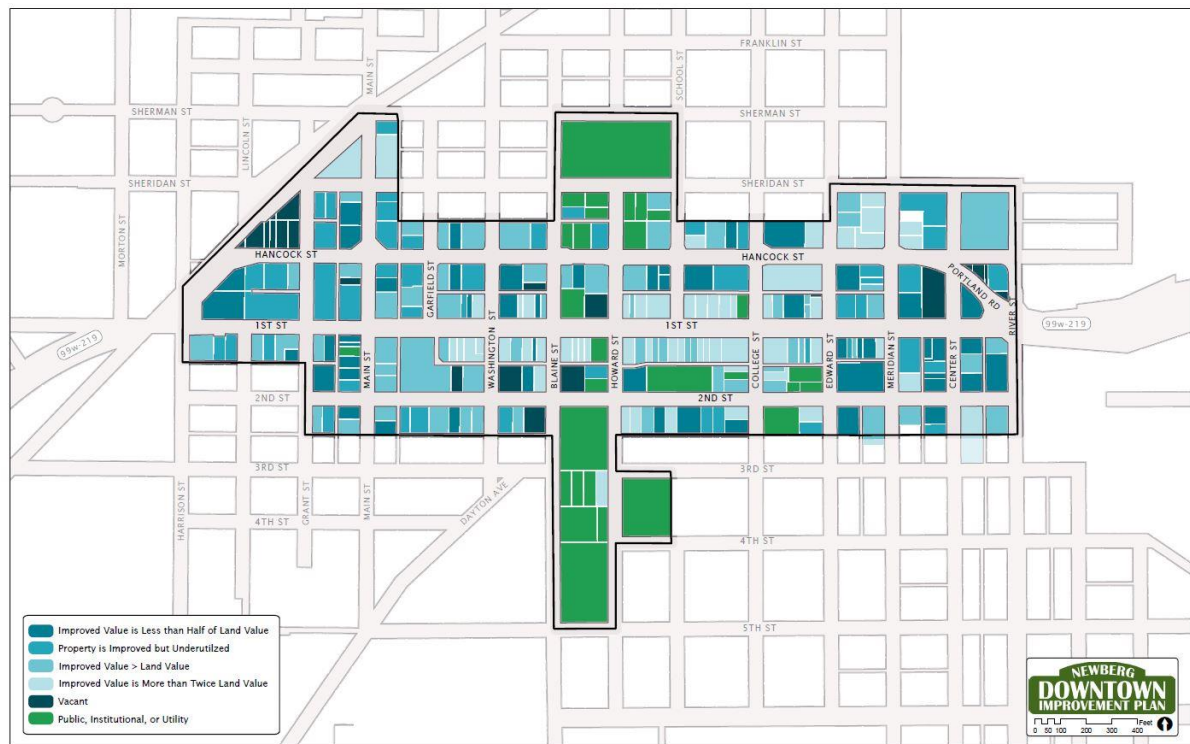
Downtown Newberg isn't without its constraints however. As verified through stakeholder interviews, traffic congestion and noise are still major hurdles for downtown livability. The Newberg-Dundee bypass should alleviate most of this issue. The relatively small size of the Newberg market also presents a challenge to would-be business owners. Many businesses look for higher population concentrations than are present in downtown Newberg, before they're confident that they'll have enough daily customers to support their bottom lines. This constraint will require careful business planning and marketing in the short term, and a concerted effort to build more housing in and around downtown in the long term.

Opportunity Areas

With the downtown market improving, it is worthwhile and timely to consider and plan where future growth and development will and should take place in the area. The map below illustrates the ratio between improved values and land values. This ratio is commonly used to understand which properties in a given area likely have buildings that are dilapidated or underutilized; those properties with land values that are close to or higher than improved value. In the map below, the darker blue the tax parcel, the closer the land value is to the improved value (green tax parcels are public, utility, or institutional properties). Dark areas of this map therefore are more likely to be opportunity sites for redevelopment.

As the map illustrates, centrally located properties on First Street have high improved values, and therefore are more likely to be stable, cash-flow producing properties. In contrast, at both east and west ends of the study area there are numerous dark blue properties, indicating either vacant or underutilized parcels.

Figure 20 - Downtown Newberg, Improved to Land Value Ratio Map (2015)



Source: City of Newberg, Parametrix, and Leland Consulting Group

Conclusion

Newberg, Oregon is a steadily growing community that is poised and ready for transformation. Newberg has many positive attributes that make it a desirable place to live and work including its proximity to the Portland Metropolitan region and Oregon's Wine Country, a strong and diverse economy, a four-year private university and a community college campus, and an active and engaged community.

As illustrated in this report, Newberg's downtown is already a strong focal point for the community. Market indicators show that there is renewed interest in retail and office spaces in downtown. Declining vacancy and rising rents are signs of positive change within the NDIP study area. A commercial real estate lender based in Newberg confirms these findings stating that their bank has seen more inquiries and requests recently regarding downtown properties.